

Loan Workouts II: Table Talk

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You're at the table with your lender. You called the meeting because you need new terms: relief from the interest "carry" that has drained your cash reserves, more time to liquidate your inventory of developed lots or new homes, or both. What are your talking points, and how will your lender respond?

Consider the following:

Market Analysis – Despite the general weakness of housing markets, it would be a mistake to ignore helpful differences in metro Atlanta's many submarkets. Price points and location, even school districts and local tax rates, retain a role in giving some submarkets an edge over others. You must be able to integrate such market facts into a realistic workout plan that accentuates the positives and effectively (meaning realistically) downplays the negatives.

Pricing – The weak housing market has driven down asking prices for new homes in every neighborhood and every price point category. Pricing your product realistically remains a point on which you must reach agreement with your lender. In many cases, the need for short sales (sales netting the lender less than its stipulated release price or less than the outstanding allocable loan amount) will have to be addressed.

Valuation – Lenders asked to consider a loan workout will routinely require an updated appraisal. A new appraisal showing values that no longer match the originally approved loan-to-value ratio will often cause your lender to demand either a principal reduction or additional collateral as a condition to any workout. Your ability and willingness to meet such demand will not only demonstrate that you are not seeking a one-way concession but also that you truly believe your workout plan is viable.

Workout Plan – The crucial element of workout negotiations is a clear, cogent and realistic plan to resolve the loan within mutually acceptable parameters. Most builder workout plans address issues of time and money, specifically,

“The time has come,”
the Walrus said, “to
talk of many things...”
– Lewis Carroll

the deferral of loan maturity dates and relief from interim interest payments and prohibitive release prices. With respect to these issues, you must carefully define and conscientiously seek what is realistically needed to resolve the debt. Since you may have only one opportunity to make a loan workout “work,” you should ask for enough time and relief to make your plan work without needing to come back to the table with your lender a second time.

Time – Like all general rules, the idea that a loan workout must be fully “workable” is subject to exceptions. In many cases, especially where markets are not expected to recover until the second half of 2009 or later, your lender may not agree to such a lengthy extension. Keeping you as borrower on a shorter lease is only part of the lender's thinking. Credit guidelines and regulatory requirements also come into play. Accordingly, you may have to consider accepting a shorter time period than you really need. If you accept the shorter time, then in most cases you are either hoping for a miracle of sales or for another extension when the next maturity date arrives.

Money – The specific debt relief you need from a loan workout may vary, from interest rate reductions and interest accrual in lieu of interim payments to waiver, write-off or write-down of existing or future interest obligations. Rarely will a builder workout affect loan principal. Release prices for lots or housing units also may be the subject of negotiation. Often the lender will require that all net proceeds from a sale be paid over as a release price, leaving nothing on the table for marketing and sales efforts. Likewise, net proceeds from a proposed sale may be insufficient to meet minimum release prices, leading to the need for short sales to generate sales momentum. You must convince the lender to support your sales and marketing efforts in these and perhaps other respects if your plan is to be workable.

Personal Liability – Unless your workout is a deed-in-lieu transaction, procuring a release from personal liability in the context of a workout will not usually be possible.

These talking points illustrate that a loan workout requires negotiation. The burden of persuasion belongs to you. If your workout plan is sound, if you are committed to making it work and if you have the staying power financially to see it through, then your lender may listen and agree. 

